

Financial Well-Being Over the Life Cycle

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This project employs new data from the Consumer Financial Protection Bureau's 2016 National Financial Well-Being Survey to better understand financial well-being over the life cycle. We begin by documenting standard lifecycle earnings behavior in these data that are reflective of other datasets, where earnings increase with age but at a decreasing rate as people get older; Americans post retirement exhibit decreased earnings with increases in age. We further demonstrate a comparable pattern in savings with these data.

After validating known economic trends in these data, we explore some of the novel measures in the financial well-being survey data. First, we look at the variation in measured financial well-being scores over the lifecycle. Using a flexible specification with nonlinearities in age that controls for pre-existing factors such as parental education and gender, we show that younger cohorts (those under 30 years of age) have lower financial well-being scores and scores modestly increase with age until individuals reach approximately 60 years of age. For all individuals older than 60, there is no further difference in financial well-being—that is well-being plateaus. Second, we examine how well people answer objective questions about financial knowledge using the same specification.

We find there are no statistically distinguishable differences in financial knowledge over the lifecycle after age 20. Using a set of measures of financial ability, we show there are also no differences in financial skill by age. Finally, we show that the measured financial well-being score appears to represent a construct that is not directly captured in income and savings metrics. It further suggests that financial knowledge and financial skills are not directly imbedded in financial well-being.

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